

MADISON SCHOOL DISTRICT
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
JUNE 30, 2007

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INDEPENDENT AUDITORS' REPORT

Board of Education
Madison School District
Adrian, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the Madison School District as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Madison School District. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities, each major fund, and the aggregate remaining fund information of the Madison School District as of June 30, 2007, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 11, and page 29, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education
Madison School District
Adrian, Michigan

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Madison School District's basic financial statements. The accompanying supplemental information, identified in the table of contents as Other Supplemental Information and Federal Awards Supplemental Information, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2007 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Drake, Watters & Associates, PLLC

Jackson, Michigan
October 5, 2007

MADISON SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2007

Madison School District, a K-12 school district located in Lenawee County, Michigan. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Madison School Districts' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2007.

Generally accepted accounting principles (GAAP), according to the GASB 34, requires the reporting of two types of financial statements: Fund Financial Statements and District Wide Financial Statements.

Fund Financial Statements:

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Fund, Sinking Fund and the School Service Funds which are comprised of: Food Service and Athletics accounts.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Fund solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

MADISON SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2007

Summary of Net Assets:

The following summarizes the net assets at fiscal year ended June 30, 2007.

Net Assets Summary	<u>June 30, 2007</u>
Assets	
Current assets	\$ <u>5,547,793</u>
Capital assets	17,591,877
Less: Accumulated depreciation	<u>(5,087,116)</u>
Capital assets, net book value	<u>12,504,761</u>
Total assets	<u>\$18,052,554</u>
Liabilities	
Current liabilities	\$ 1,590,705
Long-term liabilities	<u>1,460,188</u>
Total liabilities	<u>3,050,893</u>
Net Assets	
Invested in capital assets, net of related debt	10,889,713
Restricted for construction/repairs	325,991
Restricted for debt service	35,312
Unrestricted	<u>3,750,645</u>
Total net assets	<u>15,001,661</u>
Total liabilities and net assets	<u>\$18,052,554</u>

MADISON SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2007

Analysis of Financial Position:

During fiscal year ended June 30, 2007, the District's net assets increased by \$822,028. A few of the significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The district's revenues from General Fund operations exceeded expenditures by \$576,566 for the fiscal year ended June 30, 2007. See the section entitled Results of Operations for further discussion of General Fund operations.

B. Debt, Principal Payments

The District made principal payments on bonded, long-term debt obligations that reduced the amount of the district's long-term liabilities as follows:

	<u>Principal Balance June 30, 2006</u>	<u>Principal Payments June 30, 2007</u>	<u>Principal Balance June 30, 2007</u>
1998 Bond Debt	\$1,755,000	\$215,000	\$1,540,000
Durant Debt	<u>75,048</u>	<u>-</u>	<u>75,048</u>
Total long-term bond obligations	<u>\$1,830,048</u>	<u>\$215,000</u>	<u>\$1,615,048</u>

C. Net Investment in Capital Assets

The district's net investment in capital assets decreased by \$174,307 during the fiscal year. This can be summarized as follows:

	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Capital assets	\$17,325,370	\$ 285,618	\$ 19,111	\$17,591,877
Less: Accumulated depreciation	<u>4,646,302</u>	<u>440,814</u>	<u>-</u>	<u>5,087,116</u>
Net investment capital outlay	<u>\$12,679,068</u>	<u>\$ (155,196)</u>	<u>\$ 19,111</u>	<u>\$12,504,761</u>

MADISON SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2007

On September 22, 1998, the qualified electors of the School District approved a proposal with a 72 percent affirmative statement authorizing the School District to issue bonds in the sum of not to exceed Three Million Six Hundred Twenty Thousand (\$3,620,000) for the purpose of erecting, furnishing, and equipping an addition to the Madison High School, and developing and improving the site and relocating the softball field (the "Project").

On May 3, 2005, the qualified electors of the School District approved a proposal with a 67 percent affirmative statement authorizing the School District to levy an additional 1 mill for a period of 3 years; 2005, 2006, and 2007. On September 26, 2006 the 1 mill levy was extended for eight additional years, 2008 to 2015, by a 58% affirmative statement. This revenue will be used to create a sinking fund for the purchase of real estate for sites, for the construction or repair of school buildings and all other purposes authorized by law.

(Continued on next page)

MADISON SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2007

Results of Operations:

For the fiscal year ended June 30, 2007, the District-wide results of operations were:

June 30, 2007

Revenues:

General Revenues:

Property taxes levied for general operations	\$ 1,717,916
Property taxes levied for debt service	276,956
Property taxes levied for construction/repairs	161,501
State of Michigan unrestricted foundation aid	10,142,629
Other general revenues	<u>289,897</u>

Total general revenues 12,588,899

Operating Grants:

Federal	628,292
State of Michigan	<u>389,595</u>

Total operating grants 1,017,887

Charges for Services:

Food service	231,389
Other charges for services	<u>91,273</u>

Total charges for services 322,662

Total revenues 13,929,448

Expenses:

Instruction and instructional support	8,385,833
Support services	3,318,784
Food service	555,511
Athletics	270,898
Interest on long-term debt	68,154
Depreciation	440,814
Other	<u>67,426</u>

Total expenses 13,107,420

Increase in Net Assets **822,028**

Beginning Net Assets **14,179,633**

Ending Net Assets **\$ 15,001,661**

MADISON SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2007

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment – Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead levy

Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Madison School District's foundation allowance was \$8,160 for the 2006-2007 school year. This is an increase of \$210 per student over last year's allowance amount.

Student Enrollment:

The District's student enrollment for the fall count of 2006-2007 was 1,454 students. The District's enrollment increased slightly from the prior school year's student count. The following summarizes fall student enrollments in the past five years:

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2006-2007	1,454	0.97%
2005-2006	1,440	2.35%
2004-2005	1,407	3.76%
2003-2004	1,356	5.20%
2002-2003	1,289	4.04%

Subsequent to year-end June 30, 2007, preliminary student enrollments for 2007-2008 indicate that enrollments may increase by about 20 students from 2006-2007. The Board of Education has the option, however, of accepting more "Schools of Choice" applicant students. In the 2006-2007 school year, 514 guest students from 8 other school districts were accepted for enrollment at Madison School District. It is the Board of Education's desire to maintain its small class sizes and insure that it has space available for its own resident students who live in the current and proposed apartment complexes and subdivisions under construction.

MADISON SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2007

2. Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on non-homestead properties not including the Madison Township TIFA. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually the taxable increase in property value is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property revenue for the 2006-2007 fiscal year was \$1,696,189. The non-homestead tax levy increased by 2.80 percent over the prior year.

The following summarizes the District's non-homestead levy the past five years:

<u>Fiscal Year</u>	<u>Non-Homestead Tax Levy</u>	<u>% Increase From Prior Year</u>
2006-2007	\$1,696,189	2.80 %
2005-2006	\$1,641,923	4.27 %
2004-2005	\$1,574,667	2.60 %
2003-2004	\$1,533,803	2.40 %
2002-2003	\$1,497,173	(0.34) %

Average Increase Last 5 Years 2.21%

3. Debt Fund Property and Renaissance Zone In Lieu of Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2006-2007, the District's debt millage levy was 1.60 mills that generated revenue of \$271,223. The District's sinking fund millage levy was 1.00 mills that generated revenue of \$169,514.

4. Food Sales to Students & Adults (School Lunch Program)

The sale of food and milk to the District's students and adults increased from the prior school year by approximately \$17,620, to \$231,389. School lunch prices were increased during the year by \$.50.

The total revenues from Food Service operations exceeded total expenditures for the year by \$33,181 in the Food Services Fund.

MADISON SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2007

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

General Fund Expenditures Budget vs. Actual 5-Year History

<u>Fiscal Year</u>	<u>Expenditures Original Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Expenditures Variance Actual to Original Budget</u>	<u>Expenditures Variance Actual to Final Budget</u>
2002-2003	\$10,456,969	\$10,673,956	\$10,564,811	1.03 %	(1.02) %
2003-2004	\$10,670,971	\$11,314,057	\$11,015,624	3.23 %	(2.64) %
2004-2005	\$11,314,057	\$11,071,801	\$10,890,159	(3.75) %	(1.64) %
2005-2006	\$12,320,019	\$12,344,687	\$12,100,284	(1.78) %	(1.98) %
2006-2007	\$12,440,135	\$12,454,278	\$12,225,432	(1.73) %	(1.84) %
Five Year Average Over (Under) Budget				(0.60) %	(1.82) %

General Fund Revenue Budget vs. Actual 5-Year History

<u>Fiscal Year</u>	<u>Revenue Original Budget</u>	<u>Revenue Final Budget</u>	<u>Revenue Final Actual</u>	<u>Revenue Variance Actual to Original Budget</u>	<u>Revenue Variance Actual to Final Budget</u>
2002-2003	\$10,547,937	\$10,979,090	\$10,725,259	1.68 %	(2.31) %
2003-2004	\$10,670,863	\$11,036,108	\$10,011,680	(6.18) %	(9.28) %
2004-2005	\$11,036,108	\$11,882,467	\$11,876,807	7.62 %	(0.05) %
2005-2006	\$11,750,670	\$12,087,758	\$12,101,660	2.99 %	0.12 %
2006-2007	\$12,384,342	\$12,771,959	\$12,801,998	3.37 %	0.24 %
Five Year Average Over (Under) Budget				1.89 %	(2.26) %

MADISON SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2007

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, Madison School District amends its budget periodically during the school year. The June 30, 2007 budget amendment was the final budget for the fiscal year.

Change from Original to Final Budget

		<u>%</u>
Total Revenues Original Budget	\$12,384,342	100
Total Revenues Final Budget	<u>12,771,959</u>	<u>97</u>
Increase/Decrease in Budgeted Revenues	<u>\$ 387,617</u>	<u>3</u>

The District's final, actual general fund revenues differed from final budget by \$30,039, a variance of 0.24 percent from final budget.

The Final revenue budget reflects the following changes from the original budget:

- The original budget was based on an enrollment of 1,460 students. The actual enrollment was 1,453 students.
- Title I revenue was \$47,000 higher than projected
- Interest on investments was \$78,630 higher than projected.
- Special Education Reimbursement from LISD was \$120,000 higher than projected.

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

		<u>%</u>
Total Expenditures Original Budget	\$12,440,135	100
Total Expenditures Final Budget	<u>12,454,278</u>	<u>100</u>
Increase/Decrease in Budgeted Expenditures	<u>\$ 14,143</u>	<u>0</u>

The District's actual expenditures were less than final budget by \$228,846, a variance of 1.82 percent. Some of the significant expenditure activities for the year include:

- Teacher salaries and benefits were \$158,226 lower than originally budgeted due to the contract with Madison Education not being resolved.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Superintendent's Office, Madison School District.

MADISON SCHOOL DISTRICT

STATEMENT OF NET ASSETS June 30, 2007

ASSETS		Governmental Activities
CURRENT ASSETS:		
Cash and cash equivalents (Note 3)	\$	3,725,844
Accounts receivable		10,218
Due from other governmental units (Note 4)		1,766,193
Prepaid expenses		31,842
Inventories		13,696
TOTAL CURRENT ASSETS		<u>5,547,793</u>
NONCURRENT ASSETS		
Capital assets (Note 5)		17,591,877
Less: Accumulated depreciation		<u>(5,087,116)</u>
TOTAL NONCURRENT ASSETS		<u>12,504,761</u>
TOTAL ASSETS	\$	<u>18,052,554</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$	23,751
Accrued expenses		219,547
Accrued salaries and withholding		512,501
Deferred revenue		593,216
Accrued Interest		10,210
Bonds payable, Due within one year (Note 6)		225,000
Compensated absences and severance pay, Due within one year (Note 6)		<u>6,480</u>
TOTAL CURRENT LIABILITIES		<u>1,590,705</u>
NONCURRENT LIABILITIES		
Bonds Payable (Note 6)		1,390,048
Compensated absences and severance pay (Note 6)		<u>70,140</u>
TOTAL NONCURRENT LIABILITIES		<u>1,460,188</u>
TOTAL LIABILITIES		<u>3,050,893</u>
NET ASSETS		
Invested in capital assets, net of related debt		10,889,713
Restricted for construction/repairs		325,991
Restricted for debt service		35,312
Unrestricted		<u>3,750,645</u>
TOTAL NET ASSETS		<u>15,001,661</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>18,052,554</u>

See auditors' report and accompanying notes to financial statements.

MADISON SCHOOL DISTRICT

STATEMENT OF ACTIVITIES Year Ended June 30, 2007

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:				
Instruction and instructional support	\$ 8,385,833	\$ -	\$ 666,041	\$ (7,719,792)
Support services	3,318,784	-	-	(3,318,784)
Other	67,426	-	-	(67,426)
Food services	555,511	231,389	351,846	27,724
Athletics	270,898	91,273	-	(179,625)
Interest on long-term debt	68,154	-	-	(68,154)
Depreciation (Unallocated)	440,814	-	-	(440,814)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 13,107,420	\$ 322,662	\$ 1,017,887	(11,766,871)
GENERAL REVENUES:				
Taxes				
Property taxes, levied for general operations				1,717,916
Property taxes, levied for debt service				276,956
Property taxes, levied for construction/repairs				161,501
State of Michigan aid, unrestricted				10,142,629
Interest and investment earnings				151,658
Other				138,239
		Total general revenues		12,588,899
CHANGE IN NET ASSETS				822,028
Net assets:				
Beginning of year				14,179,633
End of year				\$ 15,001,661

See auditors' report and accompanying notes to financial statements.

MADISON SCHOOL DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS June 30, 2007

	General	Debt Retirement	Sinking Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 3,194,196	\$ 35,312	\$ 325,991	\$ 170,345	\$ 3,725,844
Accounts receivable (Note 4)	8,276	-	-	1,942	10,218
Due from other governmental units (Note 4)	1,766,193	-	-	-	1,766,193
Prepaid expenses	31,842	-	-	-	31,842
Inventories	-	-	-	13,696	13,696
TOTAL ASSETS	\$ 5,000,507	\$ 35,312	\$ 325,991	\$ 185,983	\$ 5,547,793
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 23,751	\$ -	\$ -	\$ -	\$ 23,751
Accrued expenses	219,547	-	-	-	219,547
Salaries payable	512,501	-	-	-	512,501
Deferred revenue	590,710	-	-	2,506	593,216
TOTAL LIABILITIES	1,346,509	-	-	2,506	1,349,015
Fund Balances					
Reserved for inventory	-	-	-	13,696	13,696
Reserved for debt retirement	-	35,312	-	-	35,312
Reserved for construction/repairs	-	-	325,991	-	325,991
Unreserved and undesignated	3,653,998	-	-	-	3,653,998
Unreserved and undesignated, food services	-	-	-	144,478	144,478
Unreserved and undesignated, athletics	-	-	-	25,303	25,303
TOTAL FUND BALANCES	3,653,998	35,312	325,991	183,477	4,198,778
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,000,507	\$ 35,312	\$ 325,991	\$ 185,983	\$ 5,547,793

See auditors' report and accompanying notes to financial statements.

MADISON SCHOOL DISTRICT

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES June 30, 2007

Total Governmental Fund Balances		\$	4,198,778
Amounts reported for governmental activities in the statements of net assets are different because:			
Capital assets used in governmental activities are not financial resources, and are not reported in the funds;			
The costs of the capital assets are	\$	17,591,877	
Accumulated depreciation is		<u>(5,087,116)</u>	
			12,504,761
Long-term liabilities are not due and payable in the current period and are not reported in the fund;			
Bonds Payable			(1,615,048)
Compensated absences			<u>(76,620)</u>
Accrued Interest is not included as a liability in governmental funds			<u>(10,210)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>15,001,661</u>	

See auditors' report and accompanying notes to financial statements.

MADISON SCHOOL DISTRICT

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS Year Ended June 30, 2007

	General	Debt Retirement	Sinking Fund	Other Nonmajor Governmental Funds	Totals
Revenues					
Local sources	\$ 1,928,316	\$ 281,393	\$ 166,092	\$ 328,119	\$ 2,703,920
State sources	10,155,339	-	-	23,999	10,179,338
Federal sources	300,445	-	-	327,847	628,292
Interdistrict sources	365,596	-	-	-	365,596
Miscellaneous	52,302	-	-	-	52,302
TOTAL REVENUES	12,801,998	281,393	166,092	679,965	13,929,448
Expenditures					
Current:					
Instruction and instructional support services	9,094,687	-	-	-	9,094,687
Supporting services	2,881,287	-	-	826,409	3,707,696
Miscellaneous	67,426	-	-	-	67,426
Debt Service:					
Principal repayment	-	215,000	-	-	215,000
Interest and other expenses	-	69,840	-	-	69,840
TOTAL EXPENDITURES	12,043,400	284,840	-	826,409	13,154,649
Excess (Deficiency) of Revenues Over Expenditures	758,598	(3,447)	166,092	(146,444)	774,799
Other Financing Sources (Uses)					
Operating transfers in		-	-	182,032	182,032
Operating transfers out	(182,032)	-	-	-	(182,032)
TOTAL OTHER FINANCING SOURCES (USES)	(182,032)	-	-	182,032	-
Net Change in Fund Balances	576,566	(3,447)	166,092	35,588	774,799
Fund Balances - Beginning of year	3,077,432	38,759	159,899	147,889	3,423,979
Fund Balances - End of year	\$ 3,653,998	\$ 35,312	\$ 325,991	\$ 183,477	\$ 4,198,778

See auditors' report and accompanying notes to financial statements.

MADISON SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 774,799

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities;
these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense

\$ (440,814)

Capital Outlay

266,507

(174,307)

Decrease in accrued interest payable is recorded in the statement of activities when incurred;
it is not reported in governmental funds until paid

1,686

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement
of activities (where it reduces long-term debt)

215,000

Decrease in compensated absences are not reported in the governmental funds

4,850

Change in Net Assets of Governmental Activities

\$ 822,028

See auditors' report and accompanying notes to financial statements.

MADISON SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2007

Agency Fund
Student
Activities

Assets

Cash and cash equivalents \$ 129,707

Liabilities

Liabilities:
Due to student groups \$ 129,707

See auditors' report and accompanying notes to financial statements.

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Madison School District (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District.

REPORTING ENTITY

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on application of the criteria, the entity does not contain any component units.

DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. Substantially all inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, although the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

District-wide Statements – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The effect of inter-fund activity has been substantially eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund Financial Statements – The accounts of the School District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the combined financial statements in this report, into generic fund types in two broad fund categories as follows:

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those that are required to be accounted for in another fund.

School Service Funds - The School Service Funds are used to segregate the activity of Food Service and Athletics. For reporting purposes this activity is combined under the caption "GENERAL" in the general-purpose financial statements. Specific detail for these activities can be seen presented in the Supplemental Financial Information.

Debt Retirement Fund - Debt Retirement Funds are used to account for the accumulation of resources for and the payment of general long-term principal, interest, and related costs.

Sinking Fund – Sinking Funds are used to account for the accumulation of resources for and the payment of building repairs and renovations on a pay as you go basis, in accordance with Michigan law.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**FIDUCIARY FUNDS**

Agency Fund - Agency Funds are used to account for assets held by the School District as an agent for student clubs, organizations, and classes. Agency Funds are custodial in nature and do not involve measurement of results of operations.

ACCOUNT GROUPS

Account groups are not funds. They do not reflect available financial resources and related liabilities or the measurement of results of operations. They are the District's accounting records of general long-term debt. The General Long-Term Debt Account Group is used to record the outstanding bonded debt, long-term notes payable and any other non-current obligation of the district.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The modified accrual or accrual basis of accounting, as appropriate, is used in measuring financial position and operating results:

Governmental Funds are accounted for using the current financial resources measurement focus. Accordingly, only current assets and liabilities are included on the balance sheets and the fund balances report only spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net assets. These funds use the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized when they are available and measurable and expenditures are recorded when the fund liability is incurred, if measurable.

Fiduciary fund revenues and expenses or expenditures as appropriate are recognized on the accrual basis and use the economic resources measurement focus. Nonexpendable Trust Funds and Agency fund assets and liabilities are accounted for on the modified accrual basis and are prepared using the current financial resources measurement focus.

The term "Fund Modification" is used to refer to transfers that are recognized in the accounting period in which the inter-fund receivable and payable arise.

Governmental Funds, Agency Funds and the Expendable Trust Funds utilize the modified-accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**BASIS OF ACCOUNTING Continued**

- a. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received. Properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 for the property taxes that are due on February 14. The final collection date is February 28 after which they are added to the county tax rolls.
- b. Principal and interest on general long-term debt are not recorded as expenditures until their due dates.
- c. The non-current portion of vested sick days is reflected in the General Long-term Debt Account Group.

Inventories – Inventories of expendable school and maintenance supplies are not recognized. These items are charged to the appropriate expense at the time of purchase. No central inventory is maintained. The School Service Fund inventory consists of food and paper supplies. USDA commodities are stated at a value established by the USDA.

Fund Reserves – Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following is a description of fund reserves used by the district:

Reserved for debt retirement - An account that represents the fund balance for the debt service fund resources which are legally restricted for the payment of general long-term debt principal and interest amounts maturing in future years.

Reserved for inventory - An account that represents a portion of the fund balance that indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

Reserved for construction/repairs - An account that represents the fund balance for the sinking fund resources that are legally restricted for the payment of building repairs and renovations.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. The Government defines capital assets as at least 80% of those tangible assets of the District with an estimated useful life in excess of one year and an initial cost equal to or exceeding \$5,000. A professional property appraisal firm has been used to perform an asset inventory and give an objective estimate of the asset's useful lives and values.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**Capital Assets Continued**

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20–50 years
Buses and other vehicles	8 years
Furniture and other equipment	5-20 years

Compensated Absences – The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, governmental fund types recognize bond proceeds, premiums and discounts, as well as bond issuance costs, during the current period.

Comparative Data – Comparative data is not included in the School District's financial statements.

Note 2 - BUDGETS

The School District formally adopted General, Sinking and School Services Fund budgets by function for the fiscal year ended June 30, 2007; expenditures at this level in excess of amounts budgeted is a violation of Michigan law. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner and there were over-expenditures in the general fund and the school services budgets that were less than one percent. The budget has been prepared in accordance with generally accepted accounting principles.

The budget statement (combined statement of revenue, expenditures and changes in fund balances - budget and actual - general and school service fund types) is presented on the same basis of accounting used in preparing the adopted budget.

Note 3 – DEPOSITS AND INVESTMENTS

Deposits in excess of the maximum insurance provided by the F.D.I.C. represent an uninsured risk to the school district.

Cash deposits of the District consist of the following items at June 30, 2007:

	<u>MATURITY DATES</u>	<u>INTEREST RATES</u>	<u>CARRYING AMOUNT</u>	<u>BANK BALANCE</u>
General Fund:				
United Bank & Trust	N/A	3.80%	\$ 334,972	\$ 575,091
United Bank & Trust	N/A	0.15%	8,957	7,988
MI Liquid Assets	N/A	VAR	20,654	28,586
TLC Comm. Cr. Union	N/A	1.76%	17,829	17,829
			<u>\$ 382,412</u>	<u>\$ 629,494</u>
Debt Retirement Fund:				
MI Liquid Assets	N/A	VAR	\$ 35,312	\$ 35,312
			<u>\$ 35,312</u>	<u>\$ 35,312</u>
Sinking Fund:				
Bank of Lenawee	N/A	2.00%	\$ 325,991	\$ 325,991
			<u>\$ 325,991</u>	<u>\$ 325,991</u>
School Service Fund:				
United Bank & Trust - School Lunch	N/A	0.30%	\$ 145,041	\$ 146,113
United Bank & Trust - Athletic	N/A	N/A	25,304	25,354
			<u>\$ 170,345</u>	<u>\$ 171,467</u>
Agency Fund:				
United Bank & Trust	N/A	0.30%	\$ 115,650	\$ 117,820
United Bank & Trust	N/A	2.76%	14,057	14,057
			<u>\$ 129,707</u>	<u>\$ 131,877</u>
Total Cash			<u>\$1,043,767</u>	<u>\$1,294,141</u>

Deposits are carried at cost. The carrying amount of deposits is included on the balance sheet as "Cash".

The School District invests surplus funds with Michigan School district Liquid Asset Fund Plus and MBIA Michigan Class Accounts in investment trust accounts in accordance with Section 622, 1221, and 1223 of the Michigan School Code. Investments are stated at cost, which approximates market value. The Investment Funds are categorized as mutual funds. Each School District owns a pro-rata share of each investment or deposit that is held in the name of the fund. The District holds an investment in a U.S. Treasury Note as an agent on behalf of the McGee Scholarship, which is a part of the Agency Fund.

Note 3 – DEPOSITS AND INVESTMENTS Continued

The amount of investments, as of June 30, 2007, that are not required to be categorized as to level of risk are as follows:

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Carrying Amount</u>	<u>Bank Amount</u>
General Fund – MBIA	N/A	N/A	\$ 828,181	\$ 828,181
General Fund – MIMAX	N/A	N/A	1,572,293	1,572,261
General Fund – Bank of Lenawee CD	8/15/07	5.44%	<u>411,310</u>	<u>416,661</u>
TOTAL INVESTMENTS			<u>\$2,811,784</u>	<u>\$2,817,103</u>
TOTAL CASH/INVESTMENTS			<u>\$3,855,551</u>	<u>\$4,111,244</u>

Deposit accounts are covered by federal depository insurance up to \$200,000 per institution.

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$ 417,829	\$ 417,829
Uninsured – uncollateralized	<u>3,437,722</u>	<u>3,693,415</u>
Total Cash and investments	<u>\$3,855,551</u>	<u>\$4,111,244</u>

Note 4 - RECEIVABLES

Receivables as of year-end for the school District's individual major funds and the nonmajor and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:			
Intergovernmental	\$1,766,193	\$ -	\$1,766,193
Other Receivables	<u>8,276</u>	<u>1,942</u>	<u>10,218</u>
Net receivables	<u>\$1,774,469</u>	<u>\$1,942</u>	<u>\$1,776,411</u>

Note 5 - CAPITAL ASSETS

Capital asset activity of the school District's Governmental Activities was as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Disposals/ Adjustments</u>	<u>Balance June 30, 2007</u>
Assets not being depreciated:				
Land	\$ <u>912,065</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>912,065</u>
Capital assets being depreciated:				
Building and Building improvements	13,277,921	-	2,296	13,275,625
Buses and other vehicles	549,523	-	16,815	532,708
Furniture and equipment	<u>2,585,861</u>	<u>285,618</u>	<u>-</u>	<u>2,871,479</u>
Subtotal	<u>16,413,305</u>	<u>285,618</u>	<u>19,111</u>	<u>16,679,812</u>
Accumulated depreciation:				
Building and building improvements	2,637,022	265,046	-	2,902,068
Buses and other vehicles	338,235	34,627	-	372,862
Furniture and equipment	<u>1,671,045</u>	<u>141,141</u>	<u>-</u>	<u>1,812,186</u>
Subtotal	<u>4,646,302</u>	<u>440,814</u>	<u>-</u>	<u>5,087,116</u>
Net capital assets being depreciated	<u>11,767,003</u>	<u>(155,196)</u>	<u>19,111</u>	<u>11,592,696</u>
Net capital assets	<u>\$12,679,068</u>	<u>\$(155,196)</u>	<u>\$19,111</u>	<u>\$12,504,761</u>

Note 6 - LONG-TERM LIABILITIES

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to excluding amounts represented by non-current liabilities. Since they do not affect current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

Note 6 - LONG-TERM LIABILITIES - continued

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2007:

	LONG-TERM DEBT JULY 1, 2006	INCREASED LONG-TERM DEBT	PAYMENTS/ REDUCTIONS	LONG-TERM DEBT JUNE 30, 2007	DUE WITHIN ONE YEAR
UNUSED SICK LEAVE	\$ 81,470	\$10,200	\$ 15,050	\$ 76,620	\$ 6,480
1998 BOND ISSUE	1,755,000	-	215,000	1,540,000	225,000
DURANT DEBT	<u>75,048</u>	<u>-</u>	<u>-</u>	<u>75,048</u>	<u>-</u>
	<u>\$1,911,518</u>	<u>\$10,200</u>	<u>\$230,050</u>	<u>\$1,691,668</u>	<u>\$231,480</u>

Long-term liabilities at June 30, 2007 are comprised of the following individual issues:

Due to the uncertainty of unused sick leave maturity as of June 30, 2007, this liability has been included in the amount due "Thereafter" section.

\$ 76,620

\$3,620,000 – 1998 General Obligation Bond Issue for the purpose of erecting, furnishing and equipping an addition to the Madison High School, and developing and improving the site and relocating the softball field, due in annual installments of \$70,000 to \$340,000 through May 1, 2013; interest of 3.40% to 4.0%.

\$1,540,000

\$127,000 – 1998 Durant School Improvement Bond Issue for the purpose of school improvement, due in various installments through May 15, 2013, interest at 4.76%.

\$ 75,048

The annual requirements to amortize all debts outstanding as of June 30, 2007, including interest payments of \$244,684 are as follows:

YEAR ENDING JUNE 30	UNUSED SICK LEAVE	1998 BOND ISSUE	DURANT ISSUE
2008	\$ 6,480	\$ 286,263	\$ -
2009	-	292,600	8,926
2010	-	293,000	8,925
2011	-	293,000	8,925
2012	-	297,600	59,968
Thereafter	<u>70,140</u>	<u>301,600</u>	<u>8,925</u>
	<u>\$76,620</u>	<u>\$1,764,063</u>	<u>\$95,669</u>

Note 7 - DEFINED BENEFIT PENSION PLAN

Substantially all School District employees participate in the Michigan Public School Employees Retirement System (MPERS). MPERS is a cost-sharing multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, re-codified and currently operating under the provisions of Public Act 300 of 1980, as amended. MPERS was established to provide retirement, survivor and disability benefits to the public school employees. MPERS is a qualified trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts may be members.

MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. A copy of the report may be obtained by writing to the: Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909.

The School District is required to contribute at a current rate of 17.74% of annual covered payroll. The School District's contribution for years ending June 30, 2007, 2006, and 2005 were \$1,321,805, \$1,205,921, and \$999,214, respectively, which equals the required contribution for each year. Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus additional amounts to fund retiree health care benefits on a cash disbursement basis. Basic plan members make no contributions. All other participants contribute to a Member Investment Plan (MIP) with contribution rates varying based on Plan selections.

Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental, and vision coverage. Retirees having these benefits contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium for the selected coverage.

Note 8 - CONTINGENT LIABILITIES

The School District is a reimbursing employer to the Michigan Employment Security Commission and, as such, is responsible to pay the Commission for those benefits paid and charged to its account. As of June 30, 2007 appropriate liabilities have been recorded for all claims paid by the Commission. However, no provision has been made for future payments that might result from claims in process or not yet filed.

Required Supplemental Information

MADISON SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Over (Under) Actual
	Original	Final		
Revenues:				
Local sources	\$ 1,850,741	\$ 1,907,331	\$ 1,928,316	\$ (20,985)
State sources	10,000,301	10,159,066	10,155,339	3,727
Federal sources	243,500	286,029	300,445	(14,416)
Interdistrict sources	250,000	370,353	365,596	4,757
Miscellaneous	39,800	49,180	52,302	(3,122)
TOTAL REVENUES	12,384,342	12,771,959	12,801,998	(30,039)
Expenditures:				
Current:				
Instruction:				
Basic programs	6,918,089	6,724,460	6,556,056	168,404
Added Needs	2,060,084	2,133,906	2,101,134	32,772
Community services	67,724	61,202	60,526	676
Pupil services	224,162	232,056	225,754	6,302
Instructional staff	163,137	152,966	151,217	1,749
Supporting Services:				
School administration and business	1,500,220	1,450,016	1,441,896	8,120
Operation, transportation and central	1,243,231	1,437,267	1,439,391	(2,124)
Other	84,600	75,000	67,426	7,574
Other Uses:				
Operating Transfers	178,888	187,405	182,032	5,373
TOTAL EXPENDITURES	12,440,135	12,454,278	12,225,432	228,846
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	(55,793)	317,681	576,566	(258,885)
Budgetary fund balance - July 1, 2006	3,077,432	3,077,432	3,077,432	-
Budgetary fund balance - June 30, 2007	\$ 3,021,639	\$ 3,395,113	\$ 3,653,998	\$ (258,885)

See auditors' report and accompanying notes to financial statements.

Other Supplemental Information

MADISON SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS June 30, 2007

	Nonmajor Special Revenue Funds		Nonmajor Governmental Funds
	School Lunch	Athletics	Total
Assets			
Cash and investments	\$ 145,042	\$ 25,303	\$ 170,345
Accounts receivable	1,942	-	1,942
Inventories	13,696	-	13,696
TOTAL ASSETS	\$ 160,680	\$ 25,303	\$ 185,983
Liabilities and Fund Balances			
Liabilities			
Deferred revenue	\$ 2,506	\$ -	\$ 2,506
TOTAL LIABILITIES	2,506	-	2,506
Fund Balances			
Reserved for inventories	13,696	-	13,696
Unreserved and undesignated	144,478	25,303	169,781
TOTAL FUND BALANCES	158,174	25,303	183,477
TOTAL LIABILITIES AND FUND BALANCES	\$ 160,680	\$ 25,303	\$ 185,983

See auditors' report.

MADISON SCHOOL DISTRICT**COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2007**

	<u>Nonmajor Special Revenue Funds</u>		<u>Nonmajor Governmental Funds</u>
	<u>School Lunch</u>	<u>Athletics</u>	<u>Total</u>
Revenues			
Local sources	\$ 231,389	\$ 91,273	\$ 322,662
State sources	23,999	-	23,999
Federal sources	327,847	-	327,847
Miscellaneous	5,457	-	5,457
Transfers from general fund	-	182,032	182,032
	<u>588,692</u>	<u>273,305</u>	<u>861,997</u>
TOTAL REVENUES			
	<u>588,692</u>	<u>273,305</u>	<u>861,997</u>
Expenditures			
Current operations:			
Food services	550,177	-	550,177
Athletics	-	254,053	254,053
Capital Outlay	5,334	16,845	22,179
	<u>555,511</u>	<u>270,898</u>	<u>826,409</u>
TOTAL EXPENDITURES			
	<u>555,511</u>	<u>270,898</u>	<u>826,409</u>
Excess of Revenues Over (Under) Expenditures	33,181	2,407	35,588
Fund Balances - July 1, 2006	<u>124,993</u>	<u>22,896</u>	<u>147,889</u>
Fund Balances - June 30, 2007	<u>\$ 158,174</u>	<u>\$ 25,303</u>	<u>\$ 183,477</u>

See auditors' report.

MADISON SCHOOL DISTRICT

GENERAL FUND SCHEDULE OF REVENUES - BUDGET AND ACTUAL Year Ended June 30, 2007

	2007 Budget	2007 Actual	Over (Under) Budget	2006 Actual
Revenue from Local Sources:				
Property tax	\$ 1,717,915	\$ 1,717,916	\$ 1	\$ 1,661,328
Tuition	32,500	32,463	(37)	43,535
Earnings on investments and deposits	134,500	142,630	8,130	83,642
Other local revenue	22,416	35,307	12,891	40,353
TOTAL REVENUE FROM LOCAL SOURCES	1,907,331	1,928,316	20,985	1,828,858
Revenue from State Sources:				
State school aid	10,146,356	10,142,629	(3,727)	9,619,482
Other	12,710	12,710	-	12,710
TOTAL REVENUE FROM STATE SOURCES	10,159,066	10,155,339	(3,727)	9,632,192
Revenue from Federal Sources:				
Title I	194,335	194,335	-	205,669
Other	91,694	106,110	14,416	100,794
TOTAL REVENUE FROM FEDERAL SOURCES	286,029	300,445	14,416	306,463
Incoming Transfers and Other Transactions:				
County special education	370,353	365,596	(4,757)	290,570
Payments received from other units	49,180	52,302	3,122	43,577
TOTAL INCOMING TRANSFERS AND OTHER TRANSACTIONS	419,533	417,898	(1,635)	334,147
TOTAL REVENUE AND OTHER FINANCING SOURCES	\$ 12,771,959	\$ 12,801,998	\$ 30,039	\$ 12,101,660

See auditors' report.

MADISON SCHOOL DISTRICT

GENERAL FUND SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL Year Ended June 30, 2007

	2007 Budget	2007 Actual	Over (Under) Budget	2006 Actual
Instruction:				
Basic Programs - Pre-School:				
Salaries	\$ 76,659	\$ 75,528	\$ (1,131)	\$ 86,008
Benefits	34,115	33,674	(441)	34,672
Purchased services	600	455	(145)	10,718
Supplies and materials	3,900	3,499	(401)	3,735
Capital outlay	200	-	(200)	-
TOTAL PRE-SCHOOL	115,474	113,156	(2,318)	135,133
Basic Programs - Elementary:				
Salaries	2,072,377	2,058,926	(13,451)	2,108,019
Benefits	972,451	946,855	(25,596)	933,975
Purchased services	49,242	26,168	(23,074)	26,197
Supplies and materials	143,250	141,674	(1,576)	97,531
Capital outlay	25,900	25,682	(218)	9,548
TOTAL ELEMENTARY	3,263,220	3,199,305	(63,915)	3,175,270
Basic Programs - High School/Middle School:				
Salaries	2,151,890	2,099,621	(52,269)	1,979,060
Benefits	978,571	940,764	(37,807)	891,973
Purchased services	51,955	44,749	(7,206)	53,713
Supplies and materials	126,900	126,812	(88)	111,123
Capital outlay	36,450	31,649	(4,801)	11,442
TOTAL HIGH SCHOOL/MIDDLE SCHOOL	3,345,766	3,243,595	(102,171)	3,047,311
TOTAL BASIC PROGRAMS	6,724,460	6,556,056	(168,404)	6,357,714
Added Needs - Special Education				
Salaries	993,966	986,032	(7,934)	946,313
Benefits	412,659	408,220	(4,439)	416,946
Purchased services	122,127	117,384	(4,743)	12,188
Supplies and materials	23,000	21,702	(1,298)	22,357
Capital outlay	2,000	306	(1,694)	3,745
TOTAL SPECIAL EDUCATION	1,553,752	1,533,644	(20,108)	1,401,549
Added Needs - Compensatory Education				
Salaries	159,971	158,194	(1,777)	205,672
Benefits	62,089	59,680	(2,409)	57,960
Purchased services	500	500	-	500
TOTAL COMPENSATORY EDUCATION	222,560	218,374	(4,186)	264,132

See auditors' report.

MADISON SCHOOL DISTRICT

GENERAL FUND SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL Year Ended June 30, 2007

	2007 Budget	2007 Actual	Over/(Under) Budget	2006 Actual
Instruction continued:				
Other added needs:				
Salaries	\$ 243,358	\$ 241,794	\$ (1,564)	\$ 227,661
Benefits	86,505	84,830	(1,675)	74,970
Purchased services	6,287	814	(5,473)	799
Supplies and materials	21,444	21,678	234	7,663
TOTAL OTHER ADDED NEEDS	357,594	349,116	(8,478)	311,093
TOTAL ADDED NEEDS	2,133,906	2,101,134	(32,772)	1,976,774
TOTAL INSTRUCTION	8,858,366	8,657,190	(201,176)	8,334,488
COMMUNITY SERVICES:				
Salaries	44,529	44,529	-	45,843
Benefits	11,253	11,088	(165)	10,818
Purchased services	-	-	-	426
Supplies and materials	5,420	4,909	(511)	3,925
TOTAL COMMUNITY SERVICES	61,202	60,526	(676)	61,012
SUPPORTING SERVICES:				
Pupil Services:				
Salaries	170,716	166,008	(4,708)	159,347
Benefits	59,480	57,913	(1,567)	47,525
Purchased services	460	450	(10)	415
Supplies and materials	1,100	1,083	(17)	369
Capital Outlay	300	300	-	59
TOTAL PUPIL SERVICES	232,056	225,754	(6,302)	207,715
Instructional staff:				
Salaries	93,735	92,639	(1,096)	94,553
Benefits	37,490	37,128	(362)	36,097
Purchased services	1,470	1,401	(69)	1,019
Supplies and materials	18,975	18,753	(222)	18,407
Capital outlay	1,296	1,296	-	1,100
TOTAL INSTRUCTIONAL STAFF	152,966	151,217	(1,749)	151,176
General Administration:				
Salaries	350,860	350,853	(7)	340,965
Benefits	206,075	205,454	(621)	123,581
Purchased services	88,725	88,357	(368)	100,198
Supplies and materials	30,420	32,644	2,224	49,920
Capital outlay	1,500	1,499	(1)	470
TOTAL GENERAL ADMINISTRATION	677,580	678,807	1,227	615,134
School Administration:				
Salaries	533,508	531,368	(2,140)	512,087
Benefits	214,226	207,486	(6,740)	191,851
Purchased services	4,500	4,299	(201)	4,912
Supplies and materials	17,485	17,381	(104)	18,716
Capital outlay	2,717	2,555	(162)	1,712
TOTAL SCHOOL ADMINISTRATION	772,436	763,089	(9,347)	729,278

See auditors' report.

MADISON SCHOOL DISTRICT

GENERAL FUND SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL Year Ended June 30, 2007

	2007 Budget	2007 Actual	Over (Under) Budget	2006 Actual
Supporting Services continued:				
Operation and maintenance of plant:				
Salaries	\$ 320,271	\$ 325,230	\$ 4,959	\$ 315,650
Benefits	192,231	193,191	960	161,899
Purchased services	328,538	328,530	(8)	331,292
Supplies and materials	44,500	44,436	(64)	34,523
Capital outlay	261,500	261,477	(23)	583,484
TOTAL OPERATION AND MAINTENANCE OF PLANT	1,147,040	1,152,864	5,824	1,426,848
Pupil Transportation Services				
Salaries	169,744	168,041	(1,703)	161,054
Benefits	55,734	53,862	(1,872)	48,724
Purchased services	21,414	21,523	109	26,345
Supplies and materials	43,000	42,766	(234)	38,129
Capital outlay	-	-	-	77,777
Other	335	335	-	227
TOTAL TRANSPORTATION SERVICES	290,227	286,527	(3,700)	352,256
TOTAL SUPPORTING SERVICES	3,272,305	3,258,258	(14,047)	3,482,407
TOTAL EXPENDITURES	12,191,873	11,975,974	(215,899)	11,877,907
Outgoing Transfers and Other Transactions:				
Fund modification	187,405	182,032	(5,373)	168,218
Other transactions	75,000	67,426	(7,574)	54,159
TOTAL TRANSFERS AND OTHER TRANSACTIONS	262,405	249,458	(12,947)	222,377
TOTAL EXPENDITURES AND TRANSFERS	\$ 12,454,278	\$ 12,225,432	\$ (228,846)	\$ 12,100,284

See auditors' report.

MADISON SCHOOL DISTRICT

SPECIAL REVENUE FUNDS COMBINING BALANCE SHEET June 30, 2007

	School Lunch	Athletics	Total
Assets			
Cash and cash equivalents	\$ 145,042	\$ 25,303	\$ 170,345
Accounts receivable	1,942	-	1,942
Inventories	13,696	-	13,696
TOTAL ASSETS	\$ 160,680	\$ 25,303	\$ 185,983
Liabilities and Fund Balances			
Liabilities			
Deferred revenue	\$ 2,506	\$ -	\$ 2,506
TOTAL LIABILITIES	2,506	-	2,506
Fund Balances			
Reserved for Inventory	13,696	-	13,696
Unreserved and undesignated	144,478	25,303	169,781
TOTAL FUND BALANCES	158,174	25,303	183,477
TOTAL LIABILITIES AND FUND BALANCES	\$ 160,680	\$ 25,303	\$ 185,983

See auditors' report.

MADISON SCHOOL DISTRICT

SPECIAL REVENUE FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL Year Ended June 30, 2007

	School Lunch			Athletics		
	Budget	Actual	Over (Under) Budget	Budget	Actual	Over (Under) Budget
Revenues						
Local sources	\$ 230,191	\$ 231,389	\$ 1,198	\$ 91,500	\$ 91,273	\$ (227)
State Sources	28,999	23,999	(5,000)	-	-	-
Federal Sources	305,000	327,847	22,847	-	-	-
Miscellaneous	-	5,457	5,457	-	-	-
Transfer from general fund	-	-	-	185,405	182,032	(3,373)
TOTAL REVENUES	564,190	588,692	24,502	276,905	273,305	(3,600)
Expenditures						
Salaries	152,543	152,763	220	148,000	145,352	(2,648)
Benefits	53,760	53,837	77	37,405	36,680	(725)
Purchased services	2,800	2,552	(248)	16,000	15,504	(496)
Supplies and materials	346,981	338,773	(8,208)	58,000	56,517	(1,483)
Capital outlay	6,800	5,334	(1,466)	16,845	16,845	-
Other	2,575	2,252	(323)	-	-	-
TOTAL EXPENDITURES	565,459	555,511	(9,948)	276,250	270,898	(5,352)
Excess (Deficiency) of Revenues Over Expenditures	(1,269)	33,181	34,450	655	2,407	1,752
Fund Balances - July 1, 2006	124,993	124,993	-	22,896	22,896	-
Fund Balances - June 30, 2007	\$ 123,724	\$ 158,174	\$ 34,450	\$ 23,551	\$ 25,303	\$ 1,752

See auditors' report.

MADISON SCHOOL DISTRICT

DEBT RETIREMENT FUND COMBINING BALANCE SHEET June 30, 2007

	1998 Debt	Durant Issue	Totals
Assets			
Cash	\$ 35,312	\$ -	\$ 35,312
TOTAL ASSETS	\$ 35,312	\$ -	\$ 35,312
Fund Balance			
Reserved:			
Debt Retirement	\$ 35,312	\$ -	\$ 35,312
TOTAL FUND BALANCE	\$ 35,312	\$ -	\$ 35,312

See auditors' report.

MADISON SCHOOL DISTRICT

DEBT RETIREMENT FUND COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES Year Ended June 30, 2007

	1998 Debt	Durant Issue	Totals
Revenues			
Local Sources:			
Property tax levy	\$ 276,956	\$ -	\$ 276,956
Earnings on investments	4,437	-	4,437
TOTAL REVENUES	281,393	-	281,393
Expenditures			
Debt Service:			
Redemption of principal	215,000	-	215,000
Interest on debt	69,540	-	69,540
Other	300	-	300
TOTAL EXPENDITURES	284,840	-	284,840
Excess (Deficiency) of Revenues Over Expenditures	(3,447)	-	(3,447)
Fund Balances - July 1, 2006	38,759	-	38,759
Fund Balances - June 30, 2007	\$ 35,312	\$ -	\$ 35,312

See auditors' report.

MADISON SCHOOL DISTRICT

SINKING FUND BALANCE SHEET June 30, 2007

Assets		
Cash		\$ 325,991
TOTAL ASSETS		\$ 325,991
Fund Balance		
Reserved:		
Repairs/Renovations		\$ 325,991
TOTAL FUND BALANCE		\$ 325,991

See auditors' report.

MADISON SCHOOL DISTRICT

SINKING FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues			
Local Sources:			
Property tax levy	\$ 161,501	\$ 161,501	\$ -
Earnings on investments	<u>4,047</u>	<u>4,591</u>	<u>544</u>
TOTAL REVENUES	<u>165,548</u>	<u>166,092</u>	<u>544</u>
Expenditures			
Repairs/Renovations	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	165,548	166,092	544
Fund Balances - July 1, 2006	<u>159,899</u>	<u>159,899</u>	<u>-</u>
Fund Balances - June 30, 2007	<u>\$ 325,447</u>	<u>\$ 325,991</u>	<u>\$ 544</u>

See auditors' report.

MADISON SCHOOL DISTRICT

TRUST AND AGENCY FUNDS COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES June 30, 2007

	GROUPS JULY 1, 2006	ADDITIONS	DEDUCTIONS	GROUPS JUNE 30, 2007
After Prom	\$ 1,026.44	\$ 5,190.06	\$ 5,737.76	\$ 478.74
Athletic Boosters	16,930.23	14,944.79	23,938.54	7,936.48
Baseball	35.05	1,223.00	833.00	425.05
Boys Basketball	509.00	1,109.05	900.00	718.05
Checking - Interest	418.78	454.25	549.28	323.75
Cheerleaders	552.64	1,000.00	1,086.45	466.19
Class of:				
2006	1,253.55	-	-	1,253.55
2007	951.52	7,732.48	7,407.10	1,276.90
2008	2,358.34	957.85	1,024.15	2,292.04
2009	4,701.27	480.00	556.50	4,624.77
2010	902.00	540.00	635.81	806.19
2011	370.00	400.00	-	770.00
2012	-	400.00	-	400.00
2013	-	400.00	-	400.00
Community Rewards	1,699.78	1,473.87	-	3,173.65
Drama Account	413.33	-	-	413.33
Elementary Fund Raising	28,359.47	53,844.25	65,084.55	17,119.17
Elementary Library	225.56	66.50	159.33	132.73
Elementary Newspaper	170.80	-	-	170.80
Elementary Student Council	558.49	-	200.00	358.49
Family Room	1,224.47	2,820.94	3,387.73	657.68
Football	3,144.13	10,858.52	9,254.21	4,748.44
Girls Basketball	392.84	4,842.26	4,952.48	282.62
H.S. Library Account	527.93	124.98	261.23	391.68
H.S. Student Council	1,860.81	1,201.80	1,375.19	1,687.42
Interact Club	367.47	220.00	90.00	497.47
Junior Achievement	202.50	-	-	202.50
Junior Athletics	92.26	5,243.72	5,291.50	44.48
Locker Account	13,321.04	12,069.64	11,802.28	13,588.40
Madison Football Club	-	630.00	-	630.00
Madison Kids Closet	215.99	1,680.93	918.12	978.80
Madison School Store	3,003.49	-	-	3,003.49
M.S. Student Activity	363.63	7,637.87	7,467.76	533.74
M.S. Student Council	1,950.26	799.10	1,200.00	1,549.36
National Honor Society	571.15	2,094.00	2,040.00	625.15
P.A.T.T.	15,343.53	29,626.48	35,044.42	9,925.59
P.E.A.C.E	777.78	4,047.25	4,244.69	580.34
Pop Fund	10,962.37	13,127.68	11,712.16	12,377.89
Relay For Life	2,433.04	2,280.95	2,702.04	2,011.95
Savings Account Interest	3,779.68	376.88	-	4,156.56
Scholarship	-	15,529.29	2,500.00	13,029.29
Softball	86.13	1,118.00	952.00	252.13
Special Education - Elementary	875.64	2,292.69	2,142.21	1,026.12
Special Education - H.S./M.S.	603.87	3,586.72	2,071.30	2,119.29
Strength & conditioning	2,933.40	3,730.00	2,083.80	4,579.60
Student Activities	1,333.95	11,489.31	11,050.33	1,772.93
Student Services	424.78	-	-	424.78
Sunshine	325.15	305.00	630.15	-
Track	973.41	9,781.10	8,628.12	2,126.39
Varsity Volleyball	230.29	1,740.00	1,862.79	107.50
Wrestling Club	536.50	3,948.39	2,228.87	2,256.02
Yearbook	-	13,029.62	13,029.62	-
TOTAL	\$ 130,293.74	\$ 256,449.22	\$ 257,035.47	\$ 129,707.49

See auditors' report

MADISON SCHOOL DISTRICT

PROPERTY TAX DATA Year Ended June 30, 2007

	Unpaid at JULY 1, 2006	Tax Levy	Collections/ Adjustments	Unpaid (Deferred) at JUNE 30, 2007
General fund	\$ -	\$ 1,696,189	\$ 1,696,189	\$ -
Sinking Fund	-	169,514	169,514	-
Debt retirement funds	-	271,223	271,223	-
TOTAL	\$ -	\$ 2,136,926	\$ 2,136,926	\$ -

Other Information

Taxable value of property assessed in the Madison School District

	2007	
	Homestead	Non-homestead
Municipality:		
Madison	\$ 41,622,433	\$ 40,281,685
Adrian City	7,507,350	50,637,620
Palmyra	2,947,869	3,115,757
Adrian	131,034	197,702
Total	\$ 52,208,686	\$ 94,232,764

Tax Levy (Mills):		
Debt retirement funds	1.6000	1.6000
Sinking Fund	1.0000	1.0000
General fund	-	18.0000
Total tax levy	2.6000	20.6000

Blended official student enrollment 1,445.35

See auditors' report.

Federal Awards Supplemental Information



CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education
Madison School District
Adrian, Michigan

We have audited the financial statements of the governmental funds, each major fund, and the aggregate remaining fund information of the Madison School District as of and for the year ended June 30, 2007, which collectively comprise the Madison School District's basic financial statements and have issued our report thereon dated October 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Madison School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Madison School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Madison School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying Schedule of Findings, Responses and Questioned Costs presented on pages 49-50 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the Schedule of Findings, Responses and Questioned Costs presented on pages 49-50 is a material weakness.

Board of Education
Madison School District
Adrian, Michigan

Compliance and other matters

As part of obtaining reasonable assurance about whether the Madison School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters that we have reported to the management of the Madison School District in a separate letter dated October 5, 2007.

This report is intended for the information of the board of trustees, school district management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Drake, Watters & Associates, PLLC

Jackson, Michigan
October 5, 2007



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Madison School District
Adrian, Michigan

Compliance

We have audited the compliance of Madison School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Madison School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Madison School District's management. Our responsibility is to express an opinion on Madison School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Madison School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Madison School District's compliance with those requirements.

In our opinion, Madison School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Madison School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Madison School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Madison School District's internal control over compliance.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses presented on pages 49-50 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of the board of trustees, school district management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Drake, Watters & Associates, PLLC

Jackson, Michigan
October 5, 2007

MADISON SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2007

Federal Grantor Pass Through Grantor Program Title/Grant Number	CFDA Number	Approved Awards Amount	Accrued or (Deferred) Revenue July 1, 2006	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued or (Deferred) Revenue June 30, 2007	Adjustments
U.S. Department of Education:								
Passed through Michigan Department of Education								
Title I 071530 0607	84.010	\$ 194,335	\$ -	\$ -	\$ 194,335	\$ 194,335	\$ -	\$ -
Service Provider Self Review 070440 0607	84.027A	3,547	-	-	3,547	3,547	-	-
Title V 070250 0607	84.298	2,012	-	-	2,012	2,012	-	-
Technology Literacy Challenge 074290 0607	84.318	1,995	-	-	1,995	1,995	-	-
Improving Teacher Quality 070520 0607	84.367	55,163	-	-	55,163	55,163	-	-
Emergency Impact Relief 064120 1	84.938	538	-	-	538	538	-	-
Total passed through Michigan Department of Education		<u>257,590</u>	<u>-</u>	<u>-</u>	<u>257,590</u>	<u>257,590</u>	<u>-</u>	<u>-</u>
Passed through I.S.D.								
Transition To Work 070490/TS	84.027	2,203	-	-	2,203	2,203	-	-
Drug Free Schools	84.186	1,601	-	-	1,601	1,601	-	-
Parental Information S310A020042	84.310A	10,534	4,718	4,718	5,816	10,534	-	-
Early Learning Opportunities Act 90LO0176/01	93.577	28,478	-	-	28,478	20,638	7,840	-
Medicaid Outreach	93.780	4,757	-	-	4,757	4,757	-	-
Total passed through I.S.D.		<u>47,573</u>	<u>4,718</u>	<u>4,718</u>	<u>42,855</u>	<u>39,733</u>	<u>7,840</u>	<u>-</u>
Total U.S. Department of Education		<u>305,163</u>	<u>4,718</u>	<u>4,718</u>	<u>300,445</u>	<u>297,323</u>	<u>7,840</u>	<u>-</u>
U.S. Department of Agriculture:								
Passed through Michigan Department of Education								
Child Nutrition Cluster								
1978 Breakfast	10.553	65,852	-	-	65,852	65,852	-	-
1958 Sect 4 All Lunches	10.555	37,021	-	-	37,021	37,021	-	-
1968 Sect 11 Free & Reduced	10.555	196,302	-	-	196,302	196,302	-	-
NSL Snack Program	10.555	245	-	-	245	245	-	-
Total		<u>233,568</u>	<u>-</u>	<u>-</u>	<u>233,568</u>	<u>233,568</u>	<u>-</u>	<u>-</u>
Special Milk Program	10.556	1,655	-	-	1,655	1,655	-	-
Total Child Nutrition Cluster		<u>301,075</u>	<u>-</u>	<u>-</u>	<u>301,075</u>	<u>301,075</u>	<u>-</u>	<u>-</u>
Entitlement Commodities	10.550	26,772	-	-	26,772	26,772	-	-
Bonus Commodities	10.550	-	-	-	-	-	-	-
Total		<u>26,772</u>	<u>-</u>	<u>-</u>	<u>26,772</u>	<u>26,772</u>	<u>-</u>	<u>-</u>
Total Passed Through Michigan Department of Education		<u>327,847</u>	<u>-</u>	<u>-</u>	<u>327,847</u>	<u>327,847</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Agriculture		<u>327,847</u>	<u>-</u>	<u>-</u>	<u>327,847</u>	<u>327,847</u>	<u>-</u>	<u>-</u>
Total Federal Financial Assistance		<u>\$ 633,010</u>	<u>\$ 4,718</u>	<u>\$ 4,718</u>	<u>\$ 628,292</u>	<u>\$ 625,170</u>	<u>\$ 7,840</u>	<u>\$ -</u>

Notes:

1. See notes to financial statements for significant accounting policies and procedures.
2. The Grants Section Auditors Report (R7120) and the cash management auditor report was used in preparation of this schedule.

See auditors' report

MADISON SCHOOL DISTRICT

SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS

June 30, 2007

SECTION 1: SUMMARY OF AUDITORS' RESULTS

We have audited the financial statements of Madison School District as of and for the year ended June 30, 2007 and have issued an unqualified opinion on these financial statements.

Two control deficiencies were disclosed during the audit of the financial statements and are reported in Section 2 of this schedule. Both of the conditions were considered to be significant deficiencies, however, neither was considered to be a material weakness.

No instances of noncompliance that was material to the financial statements of Madison School District were disclosed during the audit.

An unqualified opinion was issued on compliance for major federal award programs.

Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.

The following federal programs were identified as major programs: Title I, Part A (CFDA # 84.010), and the Child Nutrition Cluster (CFDA #s 10.553, 10.555 and 10.556).

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

The Madison School District was not considered to be a low-risk auditee.

SECTION 2: FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Significant Deficiencies

07-01. Finding

Internal control was found to have a significant deficiency in regards to segregation of duties. The District has an inadequate number of personnel to accomplish a proper segregation of duties.

Response

Since our district office staff currently consist of three employees, it is difficult to separate the various duties to achieve an ideal segregation of duties. We have considered the need to separate the various accounting and recordkeeping functions. Where possible, we have cross-trained employees to reconcile the accounts of another person. We have established guidelines for supervisory approval of all invoices. As an additional measure, all payments receive board of trustee approval prior to issuance of checks. We will continue to pursue other measures that may be taken to improve our system.

07-02. Finding

The District employs individuals with adequate skills in regards to controls over the period-end financial reporting process, including controls over procedures used to post to the general ledger; initiate, authorize, record and process journal entries; and, record recurring and nonrecurring adjustments. However, a significant deficiency exists due to the fact that the District does not currently have personnel with a level of knowledge or expertise to prepare and take responsibility for the District's external financial statements.

MADISON SCHOOL DISTRICT

SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS

June 30, 2007

(continued)

07-02. Response

The District relies on the current accounting staff to maintain accounting records on a day-to-day basis. The current skill level of the staff is adequate for daily operation of the District and they are quite capable of providing management information necessary for the operation of the District. For technical matters beyond the expertise of the district staff, we seek professional consultation. Currently, our external financial statements are drafted with the assistance of our auditors. The statements are reviewed and approved by the District Superintendent prior to publishing.

Material Weaknesses

Of the significant deficiencies reported above, none were determined to be material weaknesses.

SECTION 3: FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

U.S. Department of Agriculture

07-03. Child Nutrition Cluster – CFDA No. 10.553 and 10.555

Statement of Condition: A random sample of twenty-one applications produced one applicant that received free lunches when the income level indicated that the applicant was qualified for reduced price lunches.

Criteria: Eligibility guidelines provided by the U.S. Department of Agriculture determine the level of service based on the household income.

Effect of Condition: The cost difference between the two levels of service may be disallowed.

Population and sample size: Of 366 family applications, a sample of 21 was selected for testing. The test resulted in no questioned costs due to the immaterial amount.

Cause of Condition: Procedures are in place for supervisory review of eligibility determinations before assistance is authorized, but the error in calculating household income was not discovered.

Recommendation: The calculation of household income should be verified by supervisory personnel prior to approval of free or reduced priced meals.

SECTION 4: SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

There were no prior year findings or questioned costs.